

Message Text

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ACTION EB-07

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FM AMEMBASSY BRASILIA

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INFO AMCONSUL RIO DE JANEIRO

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AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA CITY

AMEMBASSY LONDON

AMEMBASSY MEXICO CITY

AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

UNCLAS BRASILIA 6617

E.O. 11652: N/A

TAGS: EAGR BR

SUBJECT: BRASILIAN FROST AND COFFEE

1. SUMMARY: CONGEN RIO CONTACTS WITH IBC AND TRADE INDICATE RELATIVE
OPTIMISM REGARDING PROSPECTS FOR COFFEE EXPORT EARNINGS

FOR THE REMAINDER OF THIS YEAR. CALENDAR YEAR 1975 EXPORT

EARNINGS NOW PUT AT \$1.2 BILLION, UP \$250-300 MILLION

FROM EARLIER ESTIMATES. LITTLE EVIDENCE IS SEEN YET

THAT ANY MASSIVE SWITCH IS TAKING

PLACE FROM COFFEE TO OTHER CROPS IN PARANA. NEVERTHELESS,

ONE TRADE SOURCE ESTIMATES THAT A SWITCH OF 25 PERCENT

OF THE PARANA ACREAGE WOULD NOT BE SURPRISING. IBC

DOES NOT APPEAR TO BE CONCERNED AT THIS PROSPECT, PREFERRING

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TO LET "MARKET FORCES" (I.E. THE IBC SUPPORT

PRICE OF 500 CRUZEIROS A BAG) GUIDE PARANA PRODUCERS IN THEIR DECISION. AT THE SAME TIME IBC AND TRADE SOURCES EXPECT SIGNIFICANT NEW COFFEE INVESTMENTS IN RELATIVELY FROST-FREE AREAS SUCH AS MINAS GERAIS AND ESPIRITO SANTO AND BAHIA. COFFEE INSTITUTE APPEARS DEAD SET AGAINST SYSTEM OF EXPORT QUOTAS BUT ADMITS IT MAY BE FORCED INTO ADOPTING THEM IF SPECULATIVE BUYING OR COFFEE RETENTION BECOMES PREVALENT. IBC ALSO UNLIKELY TO MAKE SLAES FROM STOCKS UNTIL END OF THIS CROP YEAR, FOR STRATEGIC REASON. END SUMMARY.

2. IBC AND TRADE SOURCES ARE VERY CLOSE ON THEIR LATEST ESTIMATE FOR CY 1975 COFFEE EXPORT EARNINGS. PROJECTIONS ARE US\$1.2 BILLION UP \$250-300 BILLION FROM EARLIER ESTIMATES. IBC CAUTIONS AGAINST SIMPLY APPLYING THE NEW PRICES TO THE REMAINDER OF THIS YEAR'S VOLUME, BECAUSE SOME SALES HAVE BEEN MADE, BUT NOT AS YET SHIPPED, AT EARLIER (LOWER) PRICES. SINCE PRODUCERS ARE HOLDING BACK CROP IN HOPE OF MUCH HIGHER PRICES, TRADE IN NEXT SEVERAL MONTHS MAY BE SLOWER AND PRICES INFLATED.

3. REPORTS REACHING IBC AND TWO LOCAL COFFEE BROKERS DO NOT INDICATE ANY SIGNIFICANT SWITCH FROM COFFEE TO OTHER CROPS. SOME SWITCH IS EXPECTED BOTH BECAUSE OF THE RELATIVELY LOW SUPPORT PRICE SET BY IBC (NEXT PARA) AND BECAUSE OF THE RELATIVE ATTRACTIVENESS OF OTHER CROPS, MAINLY CORN, RICE, BEANS AND SOYA IN PARANA STATE.

4. THE IBC DOES NOT APPEAR CONCERNED AT THE PROSPECT OF A SWITCH AWAY FROM COFFEE IN PARANA STATE. IN FACT, THE INSTITUTE TOLD CONGEN RIO THAT THE DECISION TO PLANT OR NOT TO PLANT COFFEE IN ONE WHICH SHOULD BE LEFT TO "MARKET FORCES". OF COURSE, THE IBC THROUGH THEIR "PRECO DE GARANTIA" OF CR\$700.00 HAS PRETTY MUCH DETERMINED WHAT DIRECTION MARKET FORCES WILL PUSH PARANA PRODUCERS. WITH REGARD TO COMPLAINTS APPEARING IN THE PRESS ABOUT THE LOW LEVEL OF THE NEW SUPPORT PRICE, THE PRICE IS BELOW THAT THE RIO TRADE HAD BEEN EXPECTING (CR\$800.00-CR\$850.00), BUT THE PRICE IS UNCLASSIFIED

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DEFINITELY NOT AN UNECONOMICAL PRICE. THE COST OF PRODUCTION IS SIGNIFICANTLY LOWER THAN THE NEW SUPPORT PRICE, NOTWITHSTANDING COMPLAINTS WHICH HAVE BEEN APPEARING DAILY IN THE PRESS.

5. IBC AND TRADE SOURCES BOTH APPEARED TO EXPECT NEW INVESTMENT IN COFFEE AWAY FROM PARANA, WITH MINAS GERAIS AND ESPIRITO SANTO BEING MENTIONED MOST OFTEN.

THESE SAME SOURCES ALSO BELIEVE THAT SUCH A SWITCH, AMOUNTING TO A BETTER GEOGRAPHICAL DIVERSIFICATION OF BRASILIA COFFEE PRODUCTION IS TO BE WELCOMED, LESSENING THE CHANCE OF FUTURE NATURAL DISASTERS DEVASTATING NATIONAL PRODUCTION.

6. THE IBC APPEARS TO BE DEAD SET AGAINST EXPORT QUOTAS. CONGEN RIO RECEIVED THIS IMPRESSION FROM IBC MARKETING DIRECTOR DELAURU BAUMGRATZ AND PRODUCTION DIRETOR PAULO MOTTA. LOCAL ANDERSON CLAYTON REP REPORTS IBC PRESIDENT CALLAZANS TOLD HIMS THE SAME THINS, ALSO NOTING THAT THE IBC WOULD ONLY BE FORCED INTO ADOPTING QUOTAS IF SPECULATIVE BYING OR COFFEE RETENTION BECOMES PREVALENT.

7. SIMILARLY, THE IBC OPPOSES MAKING SALES FROM ITS STOCKS AT THIS TIME. THIS DECISION, OF COURSE, HAS THE EFFECT OF FURTHER BOLSTERING THE MARKET, BUT IS IT ALSO FOUNDED ON STRATEGIC GOUNDS. THIS MEANS THAT THE IBC PREFERENCES TO WAIT UNTIL THE DIMENSIONS OF THE 1975/76 CROP ARE BETTER KNOWN. IN FACT, THEY WOULD PREFER TO WAIT UNTIL NEXT YEAR'S FROST SEASON HAS PASSED. WHETHER THEY WILL BE ABLE TO DO THIS IS ANOTHER QUESTION.

8. EMBASSY COMMENT: MINAG BELIEVES THAT IT IS STILL TOO EARLY TO ASSESSES FULLY DAMAGE DONE TO COFFEE AND OTHER CROPS. INTENSIVE FIELD SURVEYS ARE CURRENTLY UNDERWAY BY MINAG AND FAS PERSONNEL.

9. IN VIEW OF THE SEVERE DAMAGE TO COFFEE TREES IN PARANA THERE IS A GOOD POSSIBILITY OF A SUBSTANTIAL SWITCH TO OTHER CROPS. HOWEVER, THE FACT THAT LARGE AMOUNTS OF CAPITAL IS INVESTED IN COFFEE PLANTATIONS IN PARANA, SPECIFICALLY FOR GROWING COFFEE (SUCH AS UNCLASSIFIED

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MACHINES, APRAYERS, DRYERS, STORAGE, ETC.), WILL BE A MITIGRATING FACTOR IN MAKING A PERMANENT SWITCH. UNTIL COFFEE TREES PRODUCE AGAIN AFTER TWO YEARS, PRODUCERS WILL SEEK TEMPORARY INCOME FROM OTHER CROPS. WE CAN EXPECT SOME COFFEE PRODUCTION TO BE SHIFTED FROM PARANA TO MINAS GERAIS AND ESPIRITO SANTO AND BAHIA.

10. HIGHLIGHTS OF GOVERNMENT'S PROGRAM TO ASSIST COFFEE SECTOR IN FACE OF FROST DAMAGE BEING FORWARDED BY SEPTEL.
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